

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | | | | | |
|--|--|-------------------------------|--|--|--|--------------------------|--|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | | | Local Unit Name Grand Traverse County Road Commission | | County Grand Traverse | |
| Fiscal Year End December 31, 2006 | | Opinion Date June 15, 2007 | | Date Audit Report Submitted to State June 19, 2007 | | | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

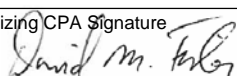
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|--|--------------------------------------|--|-------------------------|
| We have enclosed the following: | | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | | <input checked="" type="checkbox"/> | | |
| Other (Describe) | | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Rehmann Robson | | | Telephone Number 517-787-6503 | |
| Street Address 675 Robinson Road | | | City Jackson | State MI |
| | | | Zip 49203 | |
| Authorizing CPA Signature  | | Printed Name David M. Fisher, CPA | | License Number 10337 |



Grand Traverse County Road Commission
(A Component Unit of Grand Traverse County)

Traverse City, Michigan

Financial Statements

For the Year Ended December 31, 2006



REHMANN ROBSON

Certified Public Accountants

GRAND TRAVERSE COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Neil B. Livasy
Vice – Chairman

James E. Maitland
Chairman

Walter “Jay” Hooper
Vice- Chairman

Harold D. Kelly
Financial Director

Mary A. Gillis
Manager

Michael K. Dillenbeck, P.E.
County Highway Engineer

GRAND TRAVERSE COUNTY ROAD COMMISSION
(A Component Unit of Grand Traverse County)

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

June 15, 2007

Members of the Board of County
Road Commissioners
County of Grand Traverse, Michigan
1881 LaFranier Road
Traverse City, Michigan 49684

We have audited the accompanying financial statements of the governmental activities and the major fund of the **GRAND TRAVERSE COUNTY ROAD COMMISSION**, a component unit of Grand Traverse County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Grand Traverse County Road Commission's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Grand Traverse County Road Commission** as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2007 on our consideration of the **Grand Traverse County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Grand Traverse County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Grand Traverse County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Financial Highlights

- Projects for the Road Commission performed by the Michigan Department of Transportation added infrastructure of approximately \$1,286,000.
- Projects financed with federal financial assistance added approximately \$1,225,000 of additional infrastructure

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are combined government-wide and fund financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. The government-wide statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure the Road Commission's financial health or position.
- The fund financial statements focus on the fund level of funds; detail reporting the operations of the Commission's general fund.

Note that Grand Traverse County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The County presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the financial statements present the function of the Road Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include construction, repair, maintenance, and snow removal of roads within Grand Traverse County.

The government-wide financial statements include only the Road Commission itself (known as a component unit of Grand Traverse County). The Road Commission has no legally separate component units for which the Road Commission is financially accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Grand Traverse County which reports the Road Commission as a component unit.

The government-wide financial statements can be found pages 9 and 12 of this report.

Fund financial statements. A *fund* is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a government fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A Budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 13 and 14 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission’s financial statements. The notes to the financial statements can be found on pages 15 through 26 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The Road Commission’s Net assets increased approximately 12.6% or \$6,361,350 from \$50,691,353 to \$57,052,703 for the year ended December 31, 2006. The net assets and change in net assets at summarized below.

Grand Traverse County Road Commission Net Assets:

| | <u>2005</u> | <u>2006</u> |
|-----------------------------------|----------------------------|----------------------------|
| Current and other assets | \$ 3,389,451 | \$ 6,181,746 |
| Capital assets | <u>52,756,122</u> | <u>57,378,356</u> |
| Total assets | <u>56,145,573</u> | <u>63,560,102</u> |
| Long-term liabilities outstanding | 2,298,675 | 4,383,862 |
| Other liabilities | <u>3,155,545</u> | <u>2,123,537</u> |
| Total liabilities | <u>5,454,220</u> | <u>6,507,399</u> |
| Net assets: | | |
| Invested in capital assets, | | |
| net of related debt | 50,731,122 | 53,268,356 |
| Unrestricted (deficit) | <u>(39,769)</u> | <u>3,784,347</u> |
| Total net assets | <u>\$50,691,353</u> | <u>\$57,052,703</u> |

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of Grand Traverse County Road Commission, assets exceeded liabilities by \$57,052,703 at the close of the most recent fiscal year.

By far the largest portion of the Grand Traverse County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. Although the Grand Traverse County Road Commission's investments in its capital assets is reported net of related debts, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2005 and 2006 follows:

| | <u>2005</u> | <u>2006</u> |
|------------------------------------|----------------------------|----------------------------|
| Program revenue | \$ 933,523 | \$ 925,546 |
| Charges for service | 7,186,142 | 8,443,899 |
| Operating grants and contributions | 5,469,543 | 5,561,898 |
| Capital grants and contributions | | |
| General revenue | | |
| Interest and rents | 27,256 | 23,783 |
| Gain on equipment disposal | 31,049 | 398,727 |
| Bond premium | <u>-</u> | <u>30,426</u> |
| Total revenue | 13,647,513 | 15,384,279 |
| Program expenses | <u>8,558,622</u> | <u>9,022,929</u> |
| Increase in net assets | <u>\$ 5,088,891</u> | <u>\$ 6,361,350</u> |

Governmental activities increased the Grand Traverse County Road Commission's net assets by \$6,361,350. The key elements of this increase are as follows:

- Operating grant and contribution revenue is expended by the Road Commission for construction and heavy maintenance of roads. Under the full accrual method of accounting, these amounts are capitalized as infrastructure additions; therefore, the revenue is not offset by expenditures, causing a significant increase in net assets.

General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue and expense budget for 2006 was \$13,235,066 and \$13,406,891, respectively.

The actual revenue and expenses recognized during 2006 were greater than the final amended budget by approximately \$653,000 primarily as a result of higher developer contributions of infrastructure than expected.

Capital Assets and Debt Administration

As of December 31, 2006, the Grand Traverse County Road Commission had invested \$57,378,356 in capital assets. This amount represents a net increase (including additions and deductions) of \$4,622,234 or 8.8% as follow (in thousands):

| | <u>2005</u> | <u>2006</u> |
|---|-------------------------|-------------------------|
| Capital assets not being depreciated | | |
| Land, right of way and construction in progress | \$ 20,065 | \$ 23,053 |
| Capital assets being depreciated | | |
| Buildings and improvements | 4,118 | 4,118 |
| Road equipment | 7,329 | 7,749 |
| Other equipment | 2,531 | 2,563 |
| Infrastructure and improvements | <u>45,009</u> | <u>49,317</u> |
| Subtotal | 58,987 | 63,747 |
| Total capital assets | 79,052 | 86,800 |
| Total accumulated depreciation | <u>(26,296)</u> | <u>(29,422)</u> |
| Total net capital assets | <u>\$ 52,756</u> | <u>\$ 57,378</u> |

Additional information of the Road Commission's capital assets can be found in note III.B on pages 20 and 21.

Long-term debt

The Road Commission currently has long-term debt in the amount of \$4,110 million which represents primarily bonded construction projects.

Other obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The 2006 budget was prepared based on bargaining and nonbargaining employment agreements, the state road commission funding formula and expected construction inflation rates.

Requests for Information

The financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the Financial Director, Grand Traverse County Road Commission, 1881 LaFranier Road, Traverse City, Michigan 49686.

BASIC FINANCIAL STATEMENTS

GRAND TRAVERSE COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET
DECEMBER 31, 2006

| | General Fund | Adjustments | Statement of Net Assets |
|---|-------------------------|----------------------|------------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,612,047 | - | 2,612,047 |
| Accounts receivable | | | |
| State trunkline maintenance | 109,873 | - | 109,873 |
| Due on county road agreements | 70,520 | - | 70,520 |
| Motor vehicle highway funds | 1,190,142 | - | 1,190,142 |
| Due from other governments | 1,284,789 | - | 1,284,789 |
| Other | 62,329 | - | 62,329 |
| Inventories | | | |
| Equipment material and parts | 146,416 | - | 146,416 |
| Road materials | 607,202 | - | 607,202 |
| Prepaid items | 98,428 | - | 98,428 |
| Capital assets | | | |
| Not being depreciated | - | 23,052,920 | 23,052,920 |
| Being depreciated | - | 34,325,436 | 34,325,436 |
| Total assets | \$ 6,181,746 | 57,378,356 | 63,560,102 |
| LIABILITIES AND FUND BALANCE / NET ASSETS | | | |
| Accounts payable | \$ 626,231 | | 626,231 |
| Accrued liabilities | 246,269 | | 246,269 |
| Accrued interest payable | 54,068 | | 54,068 |
| Due to state | 427,841 | | 427,841 |
| Advances | | | |
| State trunkline equipment purchase | 106,556 | | 106,556 |
| State trunkline maintenance | 73,663 | | 73,663 |
| Deferred/unearned revenue | 1,838,909 | (1,250,000) | 588,909 |
| Long-term liabilities | | | |
| Due within one year | - | 566,500 | 566,500 |
| Due after one year | - | 3,817,362 | 3,817,362 |
| Total liabilities | 3,373,537 | 3,133,862 | 6,507,399 |
| Fund Balance/ net assets | | | |
| Fund balance | | | |
| Reserved for inventory | 753,618 | (753,618) | - |
| Unreserved, undesignated | 2,054,591 | (2,054,591) | - |
| Total fund balance | 2,808,209 | (2,808,209) | - |
| Total liabilities and fund balance | \$ 6,181,746 | | |
| Net assets | | | |
| Investment in capital assets, net of related debt | | 53,268,356 | 53,268,356 |
| Unrestricted | | 3,784,347 | 3,784,347 |
| Total net assets | | \$ 57,052,703 | \$ 57,052,703 |

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2006

| | |
|-------------------------------------|---------------------|
| Fund balances - General Fund | \$ 2,808,209 |
|-------------------------------------|---------------------|

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|--|------------|
| Add - capital assets not being depreciated | 23,052,920 |
| Add - net capital assets being depreciated | 34,325,436 |

Certain receivables are expected to be collected over several years, and are not available to pay for current year expenditures

| | |
|---|-----------|
| Due from townships on bond funding agreements | 1,250,000 |
|---|-----------|

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

| | |
|---------------------------------------|------------------|
| Deduct - bonds payable | (4,110,000) |
| Deduct - accrued compensated absences | <u>(273,862)</u> |

| | |
|--|-----------------------------|
| Net assets of governmental activities | <u>\$ 57,052,703</u> |
|--|-----------------------------|

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

| | General Fund | Adjustments | Statement of Activities |
|---|---------------------|----------------------|----------------------------|
| Expenditures/expenses | | | |
| Public works | \$ 13,062,342 | \$ (4,142,541) | \$ 8,919,801 |
| Capital outlay | 479,506 | (479,506) | - |
| Debt service | | | |
| Principal | 415,000 | (415,000) | - |
| Interest expense | 103,128 | | 103,128 |
| Total expenditures/expenses | 14,059,976 | (5,037,047) | 9,022,929 |
| Program revenue | | | |
| Charges for services | 925,546 | - | 925,546 |
| Operating grants and contributions | | | |
| State transportation funds | 6,986,359 | - | 6,986,359 |
| Local unit | 207,540 | 1,250,000 | 1,457,540 |
| Capital grants and contributions | | | |
| Federal and state sources | 2,560,966 | - | 2,560,966 |
| Developments | 3,000,932 | - | 3,000,932 |
| Total program revenues | 13,681,343 | 1,250,000 | 14,931,343 |
| Net program revenue | | | 5,908,414 |
| General revenue | | | |
| Gain on sale of assets | 398,727 | - | 398,727 |
| Interest and rents | 23,783 | - | 23,783 |
| Bond premium/other income | 30,426 | - | 30,426 |
| Proceeds from bond issuance | 2,500,000 | (2,500,000) | - |
| Total general revenue | 2,952,936 | (2,500,000) | 452,936 |
| Total revenue | 16,634,279 | | |
| Revenue and special items over (under) | | | |
| expenditures | 2,574,303 | (2,574,303) | - |
| Changes in net assets | - | 6,361,350 | 6,361,350 |
| Fund balance/net assets | | | |
| Beginning of the year | 233,906 | 50,457,447 | 50,691,353 |
| End of the year | \$ 2,808,209 | \$ 54,244,494 | \$ 57,052,703 |

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2006

| | |
|--|---------------------|
| Revenues over expenditures - General Fund | \$ 2,574,303 |
|--|---------------------|

Amounts reported for *governmental activities* in the statement of activities are different because:

Certain revenues are recorded in the statement of activities when the amount is earned; they are not reported in the funds unless collected within 60 days of year end

| | |
|---------------------|-----------|
| Accounts receivable | 1,250,000 |
|---------------------|-----------|

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|--------------------------------|-------------|
| Add - capital outlay | 479,506 |
| Add - Infrastructure purchases | 7,348,197 |
| Deduct - depreciation expense | (3,153,421) |

Disposal of capital assets before they are fully depreciated results in the recording of an expense in the statement of activities, but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

| | |
|--|----------|
| | (52,048) |
|--|----------|

Bond proceeds are an other financing source in the governmental funds, but is a liability in the government-wide financial statements

| | |
|--|-------------|
| | (2,500,000) |
|--|-------------|

Repayment of the principal on long-term debt consumes current financial resources of governmental funds. This transaction, however, does not effect net assets. This amount is the effect of this difference in the treatment of long-term debt.

| | |
|--|---------|
| | 415,000 |
|--|---------|

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

| | |
|--|-------|
| | (187) |
|--|-------|

Change in net assets of governmental activities

| | |
|--|-----------------------------------|
| | <u><u>\$ 6,361,350</u></u> |
|--|-----------------------------------|

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---------------------------------|----------------------------|-------------------------|-------------------|---|
| Revenues | | | | |
| Permits and licences | \$ 66,000 | \$ 62,024 | \$ 53,253 | \$ (8,771) |
| Federal sources | 3,740,400 | 1,350,000 | 1,225,090 | (124,910) |
| State sources | | | | |
| Michigan Transportation funds | | | | |
| Engineering | 10,000 | 10,000 | 10,000 | - |
| Primary road | 4,750,000 | 4,590,000 | 4,600,526 | 10,526 |
| Local road | 2,250,000 | 2,206,000 | 2,199,411 | (6,589) |
| Snow removal | 184,000 | 176,422 | 176,422 | - |
| Economic development funds | | | | |
| Rural primary | 1,281,000 | 1,086,000 | 1,286,207 | 200,207 |
| Forest Road | 50,000 | 49,669 | 49,669 | - |
| Contributions | | | | |
| Townships | 346,500 | 277,000 | 207,540 | (69,460) |
| Developments | 2,500,000 | 2,130,000 | 2,977,432 | 847,432 |
| Other | 56,000 | 79,000 | 23,500 | (55,500) |
| Charges for services | | | | |
| State trunkline maintenance | 840,000 | 750,000 | 797,960 | 47,960 |
| State trunkline non-maintenance | 63,000 | 8,751 | 8,750 | (1) |
| Salvage sales | 3,000 | 3,000 | 3,268 | 268 |
| Other | 20,000 | 15,000 | 62,315 | 47,315 |
| Interest and rentals | 15,000 | 46,200 | 23,783 | (22,417) |
| Other revenue | | | | |
| Gain on equipment disposals | 35,000 | 396,000 | 398,727 | 2,727 |
| Total revenues | <u>16,209,900</u> | <u>13,235,066</u> | <u>14,103,853</u> | <u>868,787</u> |

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| Expenditures | | | | |
| Primary Road | | | | |
| Construction | \$ 2,700,000 | \$ 2,370,000 | \$ 2,180,815 | \$ 189,185 |
| Heavy maintenance | 2,835,000 | 733,900 | 843,707 | (109,807) |
| Maintenance | 2,075,000 | 1,917,800 | 1,949,063 | (31,263) |
| Local Road | | | | |
| Construction | 2,500,000 | 2,130,000 | 2,922,423 | (792,423) |
| Heavy maintenance | 1,550,000 | 1,543,000 | 1,401,252 | 141,748 |
| Maintenance | 2,775,000 | 3,697,080 | 3,758,600 | (61,520) |
| Total maintenance | 14,435,000 | 12,391,780 | 13,055,860 | (664,080) |
| Sundry expense | 2,500 | 14,000 | 13,593 | 407 |
| State trunkline maintenance | 840,000 | 830,000 | 870,384 | (40,384) |
| State trunkline non-maintenance | 63,000 | 8,751 | 8,751 | - |
| Equipment expense (net) | (460,000) | (694,000) | (723,561) | 29,561 |
| Administrative expense (net) | 556,000 | 537,000 | 524,867 | 12,133 |
| Capital outlay (net) | (245,000) | (196,000) | (208,046) | 12,046 |
| Debt principal payments | 415,000 | 415,000 | 415,000 | - |
| Interest expense | 87,500 | 100,360 | 103,128 | (2,768) |
| Total expenditures | <u>15,694,000</u> | <u>13,406,891</u> | <u>14,059,976</u> | <u>(653,085)</u> |
| Revenues over (under) expenditures | 515,900 | (171,825) | 43,877 | 215,702 |
| Other financing sources | | | | |
| Bond premium | - | 32,925 | 30,426 | (2,499) |
| Proceeds from sale of bonds | - | 2,500,000 | 2,500,000 | - |
| Net change in fund balance | 515,900 | 2,361,100 | 2,574,303 | 213,203 |
| Fund balances, beginning of year | 233,906 | 233,906 | 233,906 | - |
| Fund balances, end of year | <u>\$ 749,806</u> | <u>\$ 2,595,006</u> | <u>\$ 2,808,209</u> | <u>\$ 213,203</u> |

The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Grand Traverse County Road Commission (the "Commission") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

A. Reporting Entity

The *Grand Traverse County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Grand Traverse, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

Cash and cash equivalents consist of cash on hand, demand and time deposit accounts, money market deposits, and certificates of deposit with original maturities of less than 90 days.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. Inventory

Inventory, consisting of various operating parts, supplies and road material, is determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets). Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

Accounting standards require major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years since June 30, 1980 be inventoried and capitalized. The Road Commission has capitalized and reported the infrastructure assets on the statement of net assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

| | |
|--------------------------|--------------------|
| Buildings | 30 to 50 years |
| Road equipment | 5 to 8 years |
| Shop equipment | 10 years |
| Office equipment | 4 to 10 years |
| Engineering equipment | 4 to 10 years |
| Infrastructure – bridges | Composite 20 years |
| Infrastructure – roads | Composite 20 years |

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. Management estimates each year for the anticipated back charges but the final amount of adjustments, if any, for the year ended December 31, 2006, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount from the estimated accrual.

5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation, sick and personal pay benefits depending on the date of hire. All accrued vacation, sick and personal pay benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

The maximum accumulation of vacation hours is 176 hours for union employees and 240 hours for administrative personnel. An excess of the maximum is lost on the anniversary date of hire, except for a limited number of employees which expires on a winter anniversary date. Employees accrue vacation time between 4 and 15 hours per month based on a scale of longevity. Effective December 1, 1990, each regular union employee is provided with 56 hours of short term leave benefit. Administrative employees receive 8 hours per month of sick leave benefit. Each employee receives payment for leave not used as of December 1st of each year. Sick leave benefits prior to December 1, 1990, can be used as well.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

Budgetary procedures are established pursuant to PA 521 of 1978, as amended, over 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Financial Director prepares a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at year end.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

At December 31, 2006, the amounts of the Road Commission's deposits were as follows:

| | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|----------------------------|----------------------------|----------------------------|
| Insured | \$ 100,000 | \$ 100,000 |
| Uninsured - collateralized | <u>2,512,047</u> | <u>2,526,053</u> |
| Total | <u>\$ 2,612,047</u> | <u>\$ 2,626,053</u> |

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require, and the Road Commission does not have, a policy for deposit custodial credit risk.

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

B. Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

| | Balance January 1, 2006 | Additions | Deductions | Balance December 31, 2006 |
|--|--|------------------|-------------------|--|
| Capital assets not being depreciated | | | | |
| Land and improvements | \$ 1,073,347 | \$ - | \$ 52,048 | \$ 1,021,299 |
| Land / right-of-way | 16,211,721 | 2,905,340 | - | 19,117,061 |
| Construction in progress | <u>2,780,831</u> | <u>133,729</u> | <u>-</u> | <u>2,914,560</u> |
| Total capital assets not being depreciated | <u>20,065,899</u> | <u>1,098,917</u> | <u>52,048</u> | <u>23,052,920</u> |
| Capital assets being depreciated | | | | |
| Buildings | 4,117,491 | - | - | 4,117,491 |
| Road equipment | 7,328,848 | 447,853 | 27,944 | 7,748,757 |
| Shop equipment | 232,513 | - | - | 232,513 |
| Office equipment | 347,837 | - | - | 347,837 |
| Engineers equipment | 263,184 | 31,653 | - | 294,837 |
| Yard and storage | 1,688,190 | - | - | 1,688,190 |
| Infrastructure – bridges | 954,792 | - | - | 954,792 |
| Infrastructure – roads | <u>44,053,490</u> | <u>4,309,128</u> | <u>-</u> | <u>48,362,618</u> |
| Total capital assets being depreciated | <u>58,986,345</u> | <u>4,788,634</u> | <u>27,944</u> | <u>63,747,035</u> |

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

| | Balance January 1, 2006 | Additions | Deductions | Balance December 31, 2006 |
|--------------------------------------|--|----------------------------|-------------------------|--|
| Less accumulated depreciation | | | | |
| Buildings | \$ 352,299 | \$ 82,350 | \$ - | \$ 434,649 |
| Road equipment | 6,529,371 | 489,579 | 27,944 | 6,991,006 |
| Shop equipment | 147,303 | 13,400 | - | 160,703 |
| Office equipment | 272,709 | 12,534 | - | 285,243 |
| Engineers equipment | 230,062 | 14,421 | - | 244,483 |
| Yard and storage | 510,924 | 75,267 | - | 586,191 |
| Infrastructure – bridges | 649,527 | 47,739 | - | 697,266 |
| Infrastructure – roads | <u>17,603,927</u> | <u>2,418,131</u> | <u>-</u> | <u>20,022,058</u> |
| Total accumulated depreciation | <u>26,296,122</u> | <u>3,153,421</u> | <u>27,944</u> | <u>29,421,599</u> |
| Net capital assets being depreciated | <u>32,690,223</u> | <u>1,635,213</u> | <u>-</u> | <u>34,325,436</u> |
| Total net capital assets | <u>\$ 52,756,122</u> | <u>\$ 4,674,282</u> | <u>\$ 52,048</u> | <u>\$ 57,378,356</u> |

C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2006 was as follows:

| | <u>1/1/06</u> | <u>Additions</u> | <u>Deletions</u> | <u>12/31/06</u> | <u>Due within one year</u> |
|----------------------|----------------------------|---------------------------|--------------------------|----------------------------|---------------------------------------|
| MTF bond payable | \$ 2,025,000 | \$ 2,500,000 | \$ 415,000 | \$ 4,110,000 | \$ 550,000 |
| Compensated absences | <u>273,675</u> | <u>187</u> | <u>-</u> | <u>273,862</u> | <u>16,500</u> |
| Total | <u>\$ 2,298,675</u> | <u>\$2,500,187</u> | <u>\$ 415,000</u> | <u>\$ 4,383,862</u> | <u>\$ 566,500</u> |

| | <u>1/1/06</u> | <u>Additions</u> | <u>Deletions</u> | <u>12/31/06</u> |
|---|----------------------|-------------------------|-------------------------|------------------------|
| <u>Bonds payable</u> | | | | |
| Michigan Transportation Fund Bonds Payable – Series 1993, principal due in variable annual installments, variable semi-annual interest payments at rate 5.3% to 3.75%, due August 2008. | \$ 525,000 | \$ - | \$ 165,000 | \$ 360,000 |
| Michigan Transportation Fund Bonds Payable – Series 2001, principal due in variable annual installments, variable semi-annual interest payments at rate 4.0% to 4.375%, due August 2011. | 1,500,000 | - | 250,000 | 1,250,000 |

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

| | <u>1/1/06</u> | <u>Additions</u> | <u>Deletions</u> | <u>12/31/06</u> |
|--|---------------------------|---------------------------|--------------------------|----------------------------|
| Michigan Transportation Fund Bond Payable – Series 2006, principal due in variable annual installments, semi-annual interest payments at rate 4.0% 5.0% due October 2016. | \$ - | \$2,500,000 | \$ - | \$ 2,500,000 |
| Total bonds payable | <u>\$2,025,000</u> | <u>\$2,500,000</u> | <u>\$ 415,000</u> | <u>\$ 4,110,000</u> |

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|----------------------------|--------------------------|----------------------------|
| 2007 | \$ 550,000 | \$ 169,763 | \$ 719,763 |
| 2008 | 680,000 | 146,263 | 826,263 |
| 2009 | 500,000 | 117,513 | 617,513 |
| 2010 | 500,000 | 96,888 | 596,888 |
| 2011 | 505,000 | 76,138 | 581,138 |
| 2012-2016 | <u>1,375,000</u> | <u>168,200</u> | <u>1,543,200</u> |
| | <u>\$ 4,110,000</u> | <u>\$ 774,765</u> | <u>\$ 4,884,765</u> |

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$152,088 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005 the date of the latest actuarial valuation was 30 years.

Three-Year Trend Information

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-----------------------------------|--|--|---------------------------------------|
| 12/31/2004 | \$120,574 | 100% | \$ - |
| 12/31/2005 | 122,453 | 100 | - |
| 12/31/2006 | 152,088 | 100 | - |

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 12/31/2003 | \$7,551,409 | \$8,568,423 | \$1,081,478 | 87.5% | \$778,137 | 139% |
| 12/31/2004 | 7,536,897 | 8,920,104 | 1,383,207 | 84.0 | 764,059 | 181 |
| 12/31/2005 | 7,504,460 | 9,001,986 | 1,497,526 | 83.4 | 779,727 | 192 |

Defined Contribution Pension Plan

The Grand Traverse County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. It is administered by ICMA. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Administrative employees are eligible to participate from the date of employment. Union employees are eligible after one year as established by agreement. The County Road Commission contributes 9% of administrative and 8% of union personnel gross earnings, respectively plus match employee contributions in an amount equal to 3% administrative and 2% union. Contributions for each employee (plus interest allocated to the employee's account) are vested 20%, 40%, 60%, 80% and 100% in years two through six, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners.

During the fiscal year the Road Commission contributed \$191,456 and employees contributed \$41,720.

B. Post Employment Benefits

In addition to the pension benefits, the County Road Commission provides post-employment health care insurance benefits to all retired employees or their surviving spouse. The benefits are provided in accordance with articles of the union agreement, which includes the provision that upon retirement, the commission contributes the full premium per month for health coverage per retiree. Total employees receiving these benefits are 12 early retirees, 20 retirees and 7 surviving spouses. Total cost for the year was \$143,899.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Self-Insurance Pool

The Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

D. Contingencies

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

E. Single Audit

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County.

During 2006, the Road Commission of Grand Traverse County expended federal awards in the amount of \$1,225,090. Of this amount \$1,165,070 represents Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of this project being performed at the State level, these expenditures will be included in the single audit procedures of the State and excluded from the Road Commission's single audit.

GRAND TRAVERSE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

F. Leases

The Commission has executed five noncancelable operating leases with Caterpillar Financial Services Corporation, payable in monthly installment amounts. Leases mature in 2011. Future lease commitments amount to \$206,923. Lease expense for December 31, 2006 was \$130,716.

Commitments over the next five years are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2007 | \$ 124,751 |
| 2008 | 57,462 |
| 2009 | 10,225 |
| 2010 | 10,225 |
| 2011 | 4,260 |

G. Related Party Transaction

During 2006, the Road Commission entered into an agreement with Great Northern Benefits to provide health insurance benefits through Priority Health. A member of the board is a principal at this company. During the year, insurance premiums paid to Priority Health amounted to \$839,629. The board member has abstained in all votes related to the agreement between the Road Commission and Great Northern Benefits.

* * * * *

OPERATING FUND SCHEDULES

GRAND TRAVERSE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

| | PRIMARY ROAD FUNDS | LOCAL ROAD FUNDS | COUNTY ROAD COMMISSION FUNDS | TOTAL |
|---------------------------------|--------------------------|------------------------|------------------------------------|-------------------|
| Revenues | | | | |
| Permits and licenses | \$ - | \$ - | \$ 53,253 | \$ 53,253 |
| Federal sources | | | | |
| Surface transportation program | 850,534 | 374,556 | - | 1,225,090 |
| State sources | | | | |
| Michigan transportation funds | | | | |
| Engineering | 6,800 | 3,200 | - | 10,000 |
| Urban | 490,157 | 228,515 | - | 718,672 |
| Allocation | 4,110,369 | 1,970,896 | - | 6,081,265 |
| Snow removal | - | 176,422 | - | 176,422 |
| Economic development funds | | | | |
| Rural primary (D funds) | 1,286,207 | - | - | 1,286,207 |
| Forest road (E funds) | - | 49,669 | - | 49,669 |
| Contributions from local units | | | | |
| Townships | 150,250 | 57,290 | - | 207,540 |
| Other | 15,000 | 2,962,432 | 23,500 | 3,000,932 |
| Charges for services | | | | |
| State trunkline maintenance | - | - | 797,960 | 797,960 |
| State trunkline non-maintenance | - | - | 8,750 | 8,750 |
| Salvage sales | - | - | 3,268 | 3,268 |
| Other | - | - | 62,315 | 62,315 |
| Interest and rentals | 10,956 | | 12,827 | 23,783 |
| Other | | | | |
| Gain on equipment disposals | | | 398,727 | 398,727 |
| Total revenues | 6,920,273 | 5,822,980 | 1,360,600 | 14,103,853 |

GRAND TRAVERSE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

| | PRIMARY ROAD FUNDS | LOCAL ROAD FUNDS | COUNTY ROAD COMMISSION FUNDS | TOTAL |
|---------------------------------|--------------------------|------------------------|------------------------------------|----------------------|
| Expenditures | | | | |
| Construction | | | | |
| Roads | \$ 2,180,815 | \$ 2,922,423 | \$ - | \$ 5,103,238 |
| Heavy maintenance | | | | |
| Roads | 843,707 | 1,401,252 | - | 2,244,959 |
| Maintenance | | | | |
| Roads | 1,949,063 | 3,758,600 | - | 5,707,663 |
| State trunkline maintenance | - | - | 870,384 | 870,384 |
| State trunkline non-maintenance | - | - | 8,751 | 8,751 |
| Equipment expense (net) | (177,490) | (410,114) | (135,957) | (723,561) |
| Administrative expense (net) | 199,946 | 324,921 | - | 524,867 |
| Capital outlay (net) | - | - | (208,046) | (208,046) |
| Other | - | - | 13,593 | 13,593 |
| Debt principal payments | - | - | 415,000 | 415,000 |
| Interest expense | - | - | 103,128 | 103,128 |
| Total expenditures | \$ 4,996,041 | \$ 7,997,082 | \$ 1,066,853 | \$ 14,059,976 |

GRAND TRAVERSE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND

SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

| | PRIMARY ROAD FUNDS | LOCAL ROAD FUNDS | COUNTY ROAD COMMISSION FUNDS | TOTAL |
|--|--------------------------|------------------------|------------------------------------|---------------------|
| Total revenues | \$ 6,920,273 | \$ 5,822,980 | \$ 1,360,600 | \$ 14,103,853 |
| Total expenditures | 4,996,041 | 7,997,082 | 1,066,853 | 14,059,976 |
| Revenues over (under) expenditures | 1,924,232 | (2,174,102) | 293,747 | 43,877 |
| Other financing sources (uses) | | | | |
| Proceeds from bond issuance | - | 2,500,000 | | 2,500,000 |
| Bond premium | - | 30,426 | | 30,426 |
| Intrafund transfers | (1,382,000) | 1,382,000 | - | - |
| Total other financing sources | (1,382,000) | 3,912,426 | | 2,530,426 |
| Revenues and other sources over (under) expenditures and other (uses) | 542,232 | 1,738,324 | 293,747 | 2,574,303 |
| Fund balance, beginning of year | - | - | 233,906 | 233,906 |
| Fund balance, end of year | \$ 542,232 | \$ 1,738,324 | \$ 527,653 | \$ 2,808,209 |



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

 an independent member of
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 15, 2007

Members of the Board of County
Road Commissioners
County of Grand Traverse, Michigan
1881 LaFranier Road
Traverse City, Michigan 49684

We have audited the financial statements of the governmental activities and the major fund of the **GRAND TRAVERSE COUNTY ROAD COMMISSION**, a component unit of Grand Traverse County, Michigan, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grand Traverse County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Grand Traverse County Road Commission in a separate letter dated June 15, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Road Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



June 15, 2007

Board of County Road Commissioners of the
Grand Traverse County Road Commission
Traverse City, Michigan

We have audited the financial statements of **GRAND TRAVERSE COUNTY ROAD COMMISSION** for the year ended December 31, 2006, and have issued our report thereon dated June 15 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated April 26, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of **Grand Traverse County Road Commission**. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Grand Traverse County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Grand Traverse County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Grand Traverse County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the Road Commission's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Grand Traverse County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Grand Traverse County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Grand Traverse County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as **Grand Traverse County Road Commission’s** auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandums are intended for the use of the Board of County Road Commissioners, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Grand Traverse County Road Commission

Comments and Recommendations

For the Year Ended December 31, 2006

In planning and performing our audit of the financial statements of Grand Traverse County Road Commission as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other matters

Bank Reconciliation Process

Criteria: The Michigan Department of Treasury has recently issued guidance re-emphasizing its position as stated in the *Uniform Accounting Procedures Manual* that local units of government are required to prepare bank reconciliations for all cash accounts monthly. Auditors are now required to report to the Local Audit and Finance Division whether all bank reconciliations examined in connection with our audit were performed timely (i.e., within six weeks of each month end). In addition, to ensure good internal controls, bank reconciliations should be reviewed by a responsible official and both the preparer and the reviewer should initial and date the reconciliation as evidence.

Condition: We noted during our auditing procedures related to cash, that bank reconciliations are not being reviewed by a responsible official other than the preparer.

Grand Traverse County Road Commission

Comments and Recommendations (Continued)

For the Year Ended December 31, 2006

- Cause:** The cause of this condition is that the Commission has a small staff which makes independent review of bank reconciliations difficult.
- Effect:** As a result of this condition, the Commission does not have independent reconciliation of its bank statements.
- Recommendation:** We recommend that to strengthen internal controls in this area, bank reconciliations should be reviewed by a responsible official with a working knowledge of the Commission's bank accounts. To document the preparation and subsequent review, bank reconciliations should be initialed and dated by both the preparer and reviewer.

Preparation and Review of Journal Entries

- Criteria:** An important component of any internal control system is the independent review of journal entries as a check for accuracy, completeness and appropriateness.
- Condition:** As a part of our procedures related to Statements on Auditing Standards (SAS) No. 99, we reviewed the Commission's procedures related to journal entries and noted that once a journal entry is prepared, there is no independent review by another official.
- Cause:** This condition is the result of past practice of only one employee handling the general ledger function and lack of knowledgeable personnel dedicated to the Commission's accounting function.
- Effect:** This condition increases the likelihood that an inappropriate or fraudulent journal entry could be posted to the general ledger and not be detected. Also, it decreases the usefulness of interim financial reports because the probability that an "honest error" would not be caught is also significant.
- Recommendation:** We recommend that a responsible official review journal entries after they are prepared as a check for journal entry appropriateness and completeness. This review should be done by an individual who has knowledge of the Commission's general ledger system and chart of accounts. The preparation and review should be documented by initialing and dating the printed copy of the entry. In order to make this process more efficient, the reviewer can sign off on one "blanket" approval form indicating that the review was for all journal entries or transfer vouchers for that month.

Grand Traverse County Road Commission

Comments and Recommendations (Concluded)

For the Year Ended December 31, 2006

Fidelity bond insurance coverage

- Criteria:** An important component of any internal control system is to have the entity adequately covered by employee dishonesty or fidelity bond insurance coverage.
- Condition:** As a part of our procedures related to Statements on Auditing Standards (SAS) No. 99, we noted that the Commission's current coverage for employee dishonesty is \$25,000, which is low in relation to the funds handled at the Road Commission.
- Cause:** This condition is the result of the current level of insurance carried.
- Effect:** This condition increases the likelihood that a fraud or embezzlement of over the \$25,000 would not be covered by insurance.
- Recommendation:** We recommend that the level of this insurance be increased. The insurance representative of the Commission would be able to recommend an adequate coverage level.

OTHER INFORMATIONAL POINT

OPEB Liability

The Road Commission, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or "OPEB") are going to require recording the annual cost and liability in the annual financial statements. Up until this new accounting standard is implemented, governmental units, including the Road Commission, have been on a "pay as you go" or cash basis to reflect these costs in their financial statements. This accounting treatment stays in place for the Road Commission through the fiscal year ended December 31, 2007. Then, for fiscal year 2008, this new reporting standard will require an actuarial report in order to determine funding requirements to force recording of a liability while service is rendered (normal cost), plus an adjustment for past service costs (called amortization of actuarial accrued liability).

The amount of the annual "ARC" expense must be recorded on each entity's financial statements. To the extent that this annual "ARC" amount is not currently funded, the under-funding must be reported on the entity's balance sheet as a liability.

This comment is intended as an informational point. Accordingly, the Road Commission should make sure all preparations and forecasts are addressed as the implementation date draws nearer

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